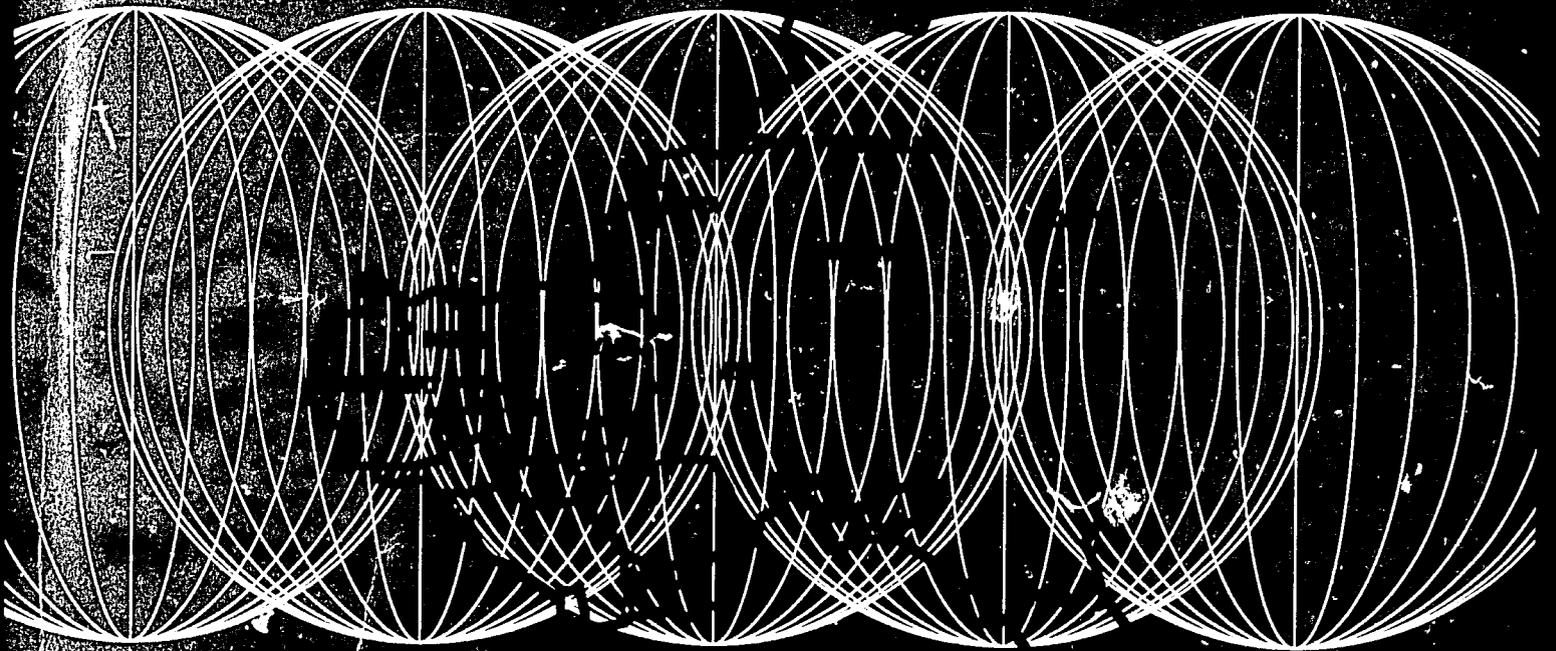
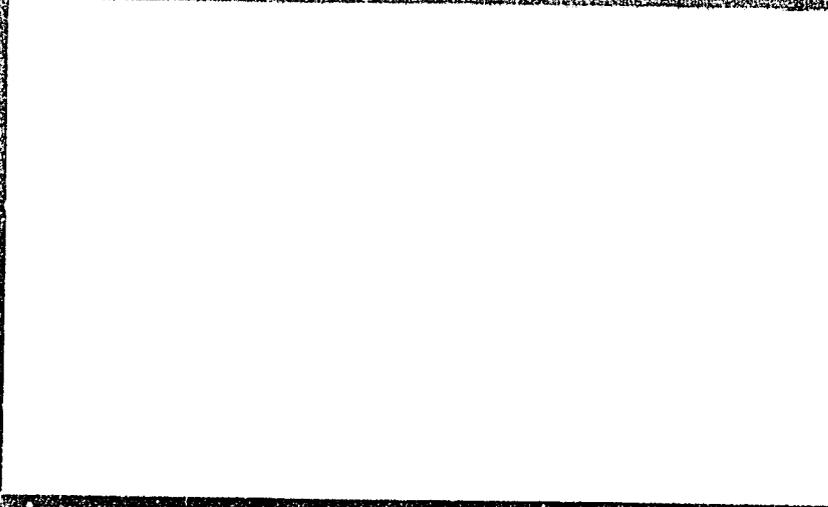


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FROM PLANNING TO MARKETS HOUSING IN EASTERN EUROPE



THE URBAN INSTITUTE
Prepared for the Office of Housing and Urban Programs (USAID)

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**SHELTER SECTOR REFORM PROJECT
RUSSIAN FEDERATION/CITY OF MOSCOW**

**WORK PLAN
[REVISED]**

**MOSBUSINESSBANK
TECHNICAL ASSISTANCE**

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**SHELTER SECTOR REFORM PROJECT
RUSSIAN FEDERATION/CITY OF MOSCOW**

WORK PLAN

**MOSBUSINESSBANK
HOUSING FINANCE TECHNICAL ASSISTANCE**

Introduction

Currently, no bank in the Russian Republic is undertaking market-based mortgage lending; yet the country suffers from an acute housing shortage. The following is a 12-month work program designed to provide assistance to MOSBUSINESSBANK (MBB) in its effort to initiate market-oriented mortgage lending. The program implements the Memorandum of Understanding (MOU) signed by USAID and MBB in November 1992; the work plan when approved by both parties will be part of this agreement. The program will extend from January 1993 to approximately January 1994. MBB is committed, assuming macroeconomic conditions permit, to begin issuing mortgages in early 1994.

MBB is anxious to expand its housing lending from Moscow to the other cities in which it has branches; it is also anxious to serve middle-income home purchasers. Its ability to achieve these objectives, however, will depend on the early experience with lending in Moscow, on the one hand, and the effective purchasing power of middle-income families and the extent of government subsidies, on the other. Under present conditions, owing to the shortage of housing, the small number of new units being sold in the open market (as opposed to being built for additions to the social housing stock), and the failure of average household incomes to keep pace with inflation, middle-income families would generally be priced out of the market, even if mortgage financing were available. On the other hand, some municipalities may well sell at cost the new units they finance; since prices are two or three times construction costs, this would make middle income households purchasers.

The goal of this part of the USAID Shelter Sector Reform Program is to make housing finance widely available to home purchasers in the Russian Federation. While this effort focuses assistance on a single firm, the most powerful means of inducing other banks to enter the market is to demonstrate the profitability to the industry through the example of a successful lender. This approach's potential for success was demonstrated by USAID's early support of India's Housing Development Finance Corporation (HDFC). HDFC has grown to a huge, highly successful enterprise and has spawned a thriving market-based mortgage finance industry in India.

Furthermore, the MOU states that the products and general procedures developed under this program will be made available to other banks interested in

entering the market. A major seminar is planned in the spring of 1994 to promulgate the general procedures developed in the work with MBB, a series of presentations by the visiting short-term consultants will foster the gradual development of the industry. These presentations will build on the successful series, jointly sponsored by MBB and USAID/Urban Institute, given in November.

To help MBB launch mortgage lending will require technical assistance in eleven areas:

- Legal services
- Underwriting
- Loan servicing
- Funds mobilization
- Mortgage product development
- Computer support
- Marketing and consumer education
- Appraisal
- Pilot program development
- Senior management education
- Development of recommendations for government support of the industry.

These activities are discussed below.

While Russia's situation is unique in many respects, it is anticipated that much of the work undertaken to develop market-based mortgage lending in Bulgaria will be applicable to this program. This program will build on the Bulgarian work and other germane work in Eastern Europe whenever possible. Because the Bulgaria program is about six months ahead of the Russian program, several opportunities for transfers should be possible.

While short-term consultants will perform most of the work outlined below, the entire program will be guided and monitored by the housing finance long-term advisor assisted by a Russian economist. In addition, an experienced American banker—referred to below as the Senior Banking Advisor—will work with MBB staff periodically beginning in April or May to help on the broad development of the lending program. This would include, for example, assistance in developing the business plan. In general, the procedure will be for the advisors to work with MBB staff to develop MBB's draft policies or procedures in a given area. These draft policies or procedures will then be reviewed by the MBB senior management and USAID, as then modified if necessary as appropriate. In this regard, it is important to emphasize that the MBB, USAID, and the resident advisor and senior banking advisor are expected to have a close and collegial working relationship. A review of progress-to-date is anticipated to occur in July.

1. **Legal Services**

Substance. A real estate lawyer has reviewed current Russian law pertaining to real estate and mortgage lending, and is participating in further development of the legal framework for mortgage lending. Based on this information, he will summarize topics requiring resolution for the emergence of a market-based mortgage system. He, a lawyer from MBB, and the housing finance long-term advisor will meet with government officials to discuss these issues as appropriate.

The advisor will work with MBB lawyers to develop appropriate legal guidelines and procedures. The legal advisor will then develop manuals, forms, and job descriptions for legal activities pertaining to housing finance. These will be translated into Russian, discussed with and approved by management of MBB.

Timing and Process. In January the lawyer will write a report summarizing legal topics to be resolved. In late January he will make a presentation to MBB staff on these issues. He, a lawyer from the MBB and the long-term advisor will meet with government officials to discuss these issues. The U.S. and MBB lawyers will meet with MBB staff to summarize the results of this effort.

In August the U.S. lawyer will return to Russia to develop with MBB staff legal guidelines and procedures for the MBB mortgage subsidiary. In September the U.S. lawyer will draft appropriate manuals, forms and job descriptions, based on those developed for the Bulgarian State Savings Bank. In October, these will be reviewed by MBB staff, and modified as necessary by the U.S. lawyer in November.

Products.

- A report outlining legal topics to be resolved.
- A report containing functional legal guidelines and procedures for mortgage lending and detailing the organization of legal functions including job descriptions for appropriate personnel.
- A manual and forms for mortgage-related legal services approved by management of MBB.

Level of Effort. This activity will require a total of 36 days of effort for a U.S. lawyer. Summarizing gaps in Russia's current real estate law structure and outlining resolutions will require 10 days. Reviewing proposed legislation with the MBB and government officials will require 5 days. Working with the MBB to draft mortgage-related legal guidelines and procedures will require 5 days; drafting a report summarizing this work will require 2 days. Modifying Bulgarian manuals, forms, and

job descriptions will require 12 days. Making additional modifications based on MBB feedback will require up to 2 days.

2. Underwriting

Substance. The rising importance of self-employment, the weakness of foreclosure legislation, and the lack of reliable documentation on borrower credit history and incomes in Russia mean that underwriting in Russia will more closely resemble underwriting in Eastern Europe than in the U.S. and Western Europe. For this reason, U.S. underwriting expert with extensive overseas experience will work with MBB staff to develop appropriate mortgage underwriting guidelines and procedures; and an appropriate organizational structure for loan origination, credit analysis, and underwriting-related home office activities. The expert will then develop underwriting manuals and forms. The expert will also develop an organization chart and job descriptions, with suggestions for modifications for large and small branches. As necessary, the expert will develop additional guidelines, procedures and forms for underwriting an indexed mortgage instrument.

Process. Work on this activity will begin in early February when an American expert on underwriting will visit MBB for ten work days to discuss the basics of underwriting organization and work practices with the MBB team and to adapt these procedures to conditions in Russia. Based on the general guidelines agreed upon, after USAID and MBB management approval, and using the extensive underwriting materials which have been prepared for Bulgaria, the underwriting expert will develop all required manuals, forms, organization charts, job descriptions, etc. In late April, after these have been prepared and translated into Russian, the expert will spend a week in Russia reviewing the materials with the MBB underwriting team and make modifications as necessary. These materials will be submitted to USAID for review.

In late March a MBB team of five people will come to the U.S. for a one-week study tour, to observe good underwriting and loan servicing procedures at several U.S. lenders. It is assumed that the MBB staff selected for this trip will be those who will assume leadership roles in the mortgage subsidiary, including the future head of the underwriting department. It is anticipated that Sally Merrill at Abt Associates (a subcontractor to the Urban Institute), assisted by a research assistant, will be responsible for making all arrangements for the trip.

In October, the underwriting expert or a training expert will develop a four-day training course, which will include underwriting theory and role playing of specific underwriting cases. In November, the expert will present the course. It is proposed that the training be delayed until November to avoid a large gap between training and the start of actual mortgage lending.

Products.

- A report reviewed by USAID and MBB management on underwriting guidelines and procedures and detailing the organization of underwriting functions including job descriptions for managers, loan officers, underwriters and support personnel of a loan origination department, credit analysis department, and appropriate head office functions.
- A manual and forms for mortgage underwriting approved by MBB management.
- Materials for a four-day course in mortgage underwriting.

Level of Effort. This activity will require a total of 27 days of effort for underwriting and 12 days for training. Preparing for and undertaking the study tour will require 10 days. The expert will require 12 days to modify the Bulgarian materials, and 5 days to review these new materials with the Russians and make required modifications. The training will require 7 days of preparation and 5 days for execution.

3. Servicing

Substance. The rising importance of self-employment and the weakness of foreclosure legislation in Russia mean that loan servicing in Russia will more closely resemble servicing in less developed countries than in the U.S. and Western Europe. For this reason, a servicing expert from India's Housing Development Finance Corporation (HDFC) will work with MBB staff to develop appropriate mortgage servicing guidelines and procedures; reporting requirements to insure adequate management ability to evaluate the mortgage lending operation; and an appropriate organizational structure for a loan servicing department—including back-office activities and servicing-related home office activities. The HDFC expert will then develop servicing manuals and forms. The expert will also develop an organization chart and job descriptions, with suggestions for modifications for large and small branches. As necessary, the specialist will develop additional guidelines, procedures and forms for servicing the selected indexed mortgage instrument.

Process. The process and timing for this activity is identical to that for loan underwriting. The study tour to the U.S. will cover both underwriting and loan servicing.

Products.

- A report approved by USAID and management of MBB outlining guidelines, procedures and reporting requirements for mortgage servicing; and detailing the organization of servicing functions including job descriptions for managers and support personnel of a loan servicing department, back office activities, and appropriate head office functions. A manual and forms for mortgage servicing.
- Materials for a three-day course in mortgage servicing.

Level of Effort. This activity will require a total of 27 days of effort for servicing and 12 days for training. Preparing for and undertaking the study tour will require 10 days. The expert will require 12 days to modify the Bulgarian materials, and 5 days to review these new materials with the Russians and make required modifications. The training will require 7 days of preparation and 5 days for execution.

4. Funds Mobilization

Substance. MBB already has considerable experience in funds mobilization and will take the lead in this effort. It will be supported by the housing finance long-term advisor. MBB will give the resident financial advisor and Senior Banking Advisor a full briefing on its current sources of funds, their costs and the stability of each source. They will discuss innovations in their fund raising tactics, and the advisor will provide recommendations for an appropriate indexed product if this is an option that seems desirable. The bank, with the advisors' assistance, will determine the market it wishes to target, the volume of funds it requires, the term of the instrument, and the branch or branches which will offer the products. The advisor will review the bank's draft plans, and further review will be given them by USAID. It is anticipated that one or more bank staff will attend a course addressing funds mobilization.

Timing and Process. It is recommended that work in this area begin no earlier than May or June 1993. The Russian financial system is extremely unstable, and is likely to change rapidly over the next 12 months. A funding product developed at the beginning of 1993 could be obsolete when it is needed 12 months later. Over the course of summer and fall 1993, the long-term advisor and the Senior Banking Advisor will work with MBB staff on options and review the bank's plans for implementing the instruments the bank selects.

Products. The bank's draft funds mobilization plan will be reviewed by the resident advisor, USAID, and MBB senior management. This plan should be available by October 1993.

Level of Effort. The long-term advisor's level of effort for this activity is included in his current contract. No short-term advisors are required for this activity.

5. Mortgage Instrument Development

Substance. The development of an instrument appropriate to Russia's unstable macroeconomic environment is a technically specialized undertaking. A U.S. housing finance expert under the guidance of the long-term advisor and assisted by a Russian economist will have primary responsibility for this work. MBB staff will provide assistance when possible. Work in this area will include choosing an appropriate instrument structure, modifying it as necessary for Russia, selecting all necessary indices, and developing an appropriate workout strategy. The expert will assess the instrument's credit and liquidity risks; and will price the instrument including determining a likely real cost of funds rate. Finally, the expert will recommend a suitable division between the interest rate and fees.

The housing finance expert will thoroughly explain the mortgage instrument and related analyses to MBB staff, and teach appropriate staff to use simplified versions of the product analysis computer models.

Timing and Process. This work began in November 1992, when a housing finance expert conducted four training sessions for staff of MBB and other bank on three alternative mortgage instruments. The expert also trained two MBB staff members in the use of the basic computer model for each instrument.

The housing finance expert under guidance from the long-term advisor will develop the specific Russian instrument in May and June 1993. In July the expert will make three presentations to MBB staff. In the first, she will explain the theoretical functioning of the candidate instruments, and review their credit and liquidity risks. In the second, she will review the details of instrument implementation. In the third, she will explain the theory of pricing a mortgage instrument, and the results of that exercise for these products. The expert will modify the product as necessary based on feedback from MBB staff. She will provide training to appropriate bank staff in the use of the computer model for further analysis of different versions of the product.

As soon as the concept for the recommended instrument is developed, and before the program of training for the staff, a paper justifying the choice will be presented to USAID and MBB senior management for review. A final decision on adoption will be made after these reviews.

Products. A report detailing the mechanics of the mortgage instrument, the specifics of its implementation, its credit and liquidity risks, and its pricing structure. A decision memorandum. Three presentations and training as described above.

Level of Effort. It is anticipated that much of the work used to develop mortgage instruments for Bulgaria and Hungary will be useful as a framework for this effort. This activity will require a total of 33 working days. Product development and analysis of liquidity and credit risks will require 14 days. The expert will have 5 days to price the product; 4 days to prepare the three presentations; and 10 days to make presentations to MBB staff, conduct training, and make product modifications based on bank and USAID feedback. Work performed by the long-term advisor and the Russian economist are not included in this level of effort; their efforts are covered by other project task orders.

6. **Computer Support**

Substance. A computer systems expert will prepare a detailed specification for a computerized loan servicing system for the new mortgage instrument. The specification will include the establishment of data elements, provisions for alignment with other software systems and conformance to MBB's reporting and accounting requirements. The consultant will modify the Bulgarian mortgage loan servicing software as necessary to accommodate the MBB's instrument and needs. A Russian computer systems expert will translate the system's text into Russian. The U.S. systems expert will test the resulting product and, in conjunction with the Russian programmer, debug the system as necessary. Note that this task will not be undertaken until detailed loan servicing procedures and reporting requirements have been established.

The systems expert will install the data processing system at the pilot site. He will develop a one-day course to teach appropriate staff how to use the computer hardware and software, and teach the course.

Timing and Process. Work for this activity will begin in July when the U.S. computer expert will study MBB's current computer system to determine compatibility requirements. In August the computer expert will modify the Bulgarian alternative mortgage instrument computer system to meet the specialized needs of MBB. In September, a Russian computer programmer will translate the program into

Russian, and the American expert will test the resultant system. In November, the U.S. expert will modify the Bulgarian computer training program as necessary and in December he will conduct training for MBB staff and install the computer package.

Products.

- A report including detailed servicing system specifications and summary of the major features of the system developed or chosen.
- A manual for the system translated into Russian.
- Training materials for the one day course.

Level of Effort. The above work is planned to consist largely of modifying products which will already have been developed for Bulgaria. This activity will require a total of 21 for the U.S. computer programmer and 15 days for the Russian programmer. For the American programmer, determining compatibility requirements will require 3 days. Developing detailed servicing system specifications based on those developed for Bulgaria will require 3 days; modifying the Bulgarian computer system will require 6 days; debugging the Russian version, 2 days; modifying the Bulgarian training program, 2 days; and presenting the training and installing the system, 5 days. For the Russian programmer, translating the system will require 10 days, and participating in the debugging and installation will require 5 days. It is assumed that MBB will bear the expense of hiring a Russian programmer.

7. Marketing and Consumer Education

Substance. A bank marketing specialist will work with MBB management to outline a marketing plan and consumer education materials for the new mortgage instrument. The marketing specialist will also provide general advice to the MBB on the organization of their marketing department. The MBB will prepare a detailed marketing plan and consumer education materials which will be reviewed and critiqued by the marketing expert and sent to USAID for its review.

Timing and Process. In early August, the marketing specialist will make a presentation to MBB staff outlining the general structure and function of a marketing department and reviewing the purpose and content of a marketing plan. The marketing expert and MBB management will outline the MBB's marketing plan for the new mortgage instrument and develop formats for education materials. The expert and USAID will review these concepts. In late August and September the MBB will develop a detailed marketing plan and all consumer education materials. In October, the U.S. expert will review the MBB's products. The MBB will make final

modifications to its plans and materials in November, and will launch its education program in December.

Products. A presentation on marketing departments and plans and a report reviewing the MBB's marketing plan and education materials.

Level of Effort. This activity will require a total of 13 days of work. Developing a marketing presentation will require 1 day. Making the presentation and working with MBB staff to outline a marketing plan and consumer education materials will require 5 days. Reviewing the MBB marketing plan and materials will require 7 days.

8. Appraisal

Substance. The National Association of Realtors (NAR) is currently negotiating with USAID to promote development of the real estate industry in Russia. This could include providing training in real estate brokerage and appraisal. If an NAR course is available, appropriate MBB staff will participate in it.

After MBB staff have taken the course, a U.S. appraisal expert will work with them to develop draft guidelines, procedures, and an internal appraisal organization structure for the MBB. The U.S. expert will also develop an appraisal manual and required forms. These will be reviewed by the MBB and modified by the advisor as necessary. If the NAR has not offered an appraisal course by December 1993, the U.S. appraisal expert or a trainer will teach a 5-day appraisal training course for MBB staff and other interested Russians.

Timing and Process. In early September, a U.S. appraisal expert will work with MBB staff to develop an outline of appropriate appraisal guidelines, procedures, and an organizational structure. Based on the general guidelines agreed upon, and on the extensive materials which have been prepared for Bulgaria, the appraisal expert will develop all required manuals, forms, organization charts, job descriptions by mid-October. These will be reviewed by MBB staff by mid-November and required modifications will be made in late November.

Products.

- A report approved by management of MBB outlining guidelines and procedures for a real estate appraisal department; and detailing the organization of appraisal functions including job descriptions for managers and support personnel.

- A manual and forms for appraisal.
- Materials for a four-day course in appraisal, if such a course is not available from other sources.

Level of Effort. This activity will require a total of 20 days of work for internal appraisal development and an additional 8 days for training if it is required. The appraisal expert will spend 5 days outlining appraisal guidelines, procedures and an organization structure with MBB staff. The expert will require 12 days to modify the Bulgarian materials, and 3 days to make additional based on MBB input. The training will require 3 days to modify Bulgarian materials and 5 days for execution.

9. Business Plan Review and Pilot Program Development

Substance. The long-term advisor will provide an example of a business plan to MBB staff. In addition, he and the Senior Banking Advisor will provide general advise and guidance to MBB in their development of a business plan for mortgage lending. The long-term advisor and USAID will review MBB's business plan. It is expected that the business plan will be a series of projections of the income, expenses and profits associated with mortgage lending. The cost data will include both cost (and sources) of funds and administrative costs; revenues will depend on mortgage loan volumes and terms, the share of total assets held in mortgages, and the share and rate of return on other investments. Appropriate allowance for reserves and loan losses must be included. As such, the business plan will build on all of the information provided to MBB over the year.

In addition, the Senior Banking Advisor and the long-term advisor will work with the MBB to develop a pilot program. Issues to be addressed include the target market for the program, the geographic region to select and the number and volume of initial loans to be offered. Further, the advisors, assisted by a Russian economist, will review the macroeconomic environment and other factors associated with the riskiness of long-term lending to make a recommendation as to whether conditions meet the minimum standards for prudent lending.

Timing and Process. The long term advisor will provide an example of a business plan to MBB in late January, and general advice on plan development as required. It is expected that numerous trial plans will be developed with the assistance of the Senior Banking Advisor. The first preliminary plan is expected by the end of July. As appropriate, he will share these with USAID. When MBB has completed its final trial business plan, the long-term advisor, USAID and MBB top management will review it.

In November, a Russian economist will collect information on inflation, cost of funds, wage growth and interest rate fluctuations for the last six months, and likely future trends. The long-term advisor, an economist, and a housing finance specialist will assess this information and make a recommendation regarding the advisability of a January 1994 launch of the housing finance program. The team will make a presentation to MBB management and USAID. MBB will decide whether to proceed as recommended. The U.S. team and MBB will develop a pilot program structure.

Products.

- A memorandum reviewing the bank's business plan.
- A short report and presentation materials on Russia's macroeconomic stability.
- A memorandum summarizing the agreed-upon structure of the pilot program.

Level of Effort. This activity will require 12 days of work. A housing finance specialist will spend 7 days analyzing the data, assessing its likely impact on the mortgage program, and preparing a short report and presentation. The specialist will spend 5 days working with the MBB to develop a pilot program. The long-term advisor's and Russian economist's work on this activity are not included in this work program; this effort is covered by another task order under the project.

10. Senior Management Training

Substance. Senior management training will take place throughout program development. In November 1992, housing finance experts presented six seminars on topics including funds mobilization, mortgage instrument development, risk management, underwriting, and loan servicing. In-depth training in alternative mortgage instruments, loan pricing, underwriting, servicing and appraisal is included in other activities of this work program. Also, up to 10 senior managers will attend formal training programs as needs become apparent and programs are identified. At least two managers will attend training courses on financial management, including such topics as interest rate and other risks associated with mortgage lending.

Timing and Process. In addition to the two U.S. study tours, three formal training programs in Russia, and presentations discussed above, up to ten senior managers will attend one- to two-week training programs abroad during 1993. Two managers will attend a mortgage program in February in Utah. Other opportunities will be identified as the year progresses, and will be subject to funding availability.

Products.

- Training materials from activities discussed above.

Level of Effort. This activity requires no work by short-term advisors in addition to that covered under activities already reviewed.

Training/Seminar Summary. Table 1 on the next page summarizes the training and seminars now envisioned. In general, the program will exploit the presence of short-term experts visiting Russia to give seminars to the banking community as well as more intensive instruction to MBB staff. In addition to the training activities in Russia, study tours and attendance at training courses in the U.S. are included. Five of these are shown in the table but resources for one or two more have been budgeted. The courses will be selected over the course of the year as the training needs became clearer.

11. Government Support of Mortgage Lending

Substance. The housing finance long-term advisor assisted by a Russian economist will discuss with government officials options for state involvement in the mortgage industry. Options include a state-owned liquidity facility, targeting of pension and insurance fund resources to mortgage lending, mortgage insurance, and favorable regulatory and tax treatment. As appropriate, the MBB will be asked to participate in these meetings. The MBB will also be informed of any developments. It is anticipated that the MBB will have its own discussions with the Government. The long-term advisor will provide advice upon request.

Process. The long-term advisor has met with the Ministry of Finance (MOF) to discuss the role and significance of an emergency liquidity facility. The MOF has discussed this idea briefly with the central bank. During 1993, the long-term advisor and a Russian economist will continue to meet with government officials.

Products. This activity requires no written products.

Level of Effort. This activity requires no work by short-term advisors. The long-term advisor's and Russian economist's work are not included in this work program; their effort is covered by other task orders under this project.

Table 1
Summary of Training and Seminars

Topic	Type of Event	Target Audience		Location	
		MBB Staff	Bankers	Russia	U.S.
Senior management principles for mortgage finance	Utah seminar	X			X
Essentials of mortgage documentation (legal)	Half-day seminar	X	X	X	
Loan underwriting	Detailed staff training	X		X	
	Half-day seminar		X	X	
	Study tour	X			X
Loan servicing	Detailed staff training	X		X	
	Half-day seminar		X	X	
	Study tour	X			X
Funds mobilization	Training course	X			X
Computer software for loan servicing	Detailed staff training	X		X	
Property appraisal	Training course	X	X	X	
Financial management	Training course	X		X	
Mortgage instrument	Staff training	X		X	
	Half-day seminar		X	X	
Marketing	Half-day seminar	X	X	X	
Principles of preparing a business plan	One-day seminar	X	X	X	

ANNEX A

OUTLINE OF WORK PROGRAM

- I. Legal
 - A. Analysis of legal needs
 - B. Organizational structure and job descriptions
 - C. Guidelines
 - D. Procedures
 - E. Manuals and forms

- II. Underwriting
 - A. Organizational structure and job descriptions
 - 1. Loan origination department
 - 2. Credit analysis department
 - 3. Headquarters and district-level policy support
 - B. Guidelines
 - C. Procedures
 - D. Manuals and forms
 - E. Formal Training

- III. Servicing
 - A. Organizational structure and job descriptions
 - 1. Servicing department
 - 2. Record keeping
 - 3. Headquarters policy support
 - B. Guidelines
 - C. Procedures
 - D. Manuals and forms
 - E. Formal Training

- IV. Advise for Funds Mobilization and Review of Plan
 - A. Strategy identification
 - 1. Indexed deposit instrument
 - 2. Bonds
 - 3. Other
 - 4. Target market identification
 - B. Volume identification
 - C. Plan
 - 1. Region or branches
 - 2. Spread over or under index
 - 3. Required term

- V. Mortgage Instrument
 - A. Choice of instrument template
 - 1. PLAM
 - 2. DIM
 - 3. DPM
 - B. Unpaid loan principal index selection
 - 1. Generic type
 - 2. Actual indicator
 - 3. Index smoothing
 - 4. Reporting lag required
 - C. Payment index selection (if required)
 - 1. Generic type
 - 2. Actual indicator
 - 3. Reporting lag required
 - D. Workout strategy
 - 1. None
 - 2. Payment cap
 - a. Index selection
 - b. Capped payment to income level
 - c. Contingency plan for income index reporting delay
 - d. Maximum payment extension
 - e. Responsibility for residual
 - 3. Deferral for unemployment
 - a. Partial
 - b. Complete
 - c. Maximum term
 - E. Analysis of liquidity risk
 - F. Analysis of credit risk
 - G. Analysis of real interest rate risk (if applicable)
 - H. Loan pricing and division between fees and interest
 - 1. Administrative costs
 - 2. Credit risk
 - 3. Liquidity risk
 - 4. Real interest rate risk (if applicable)
 - 5. Reserve requirements
 - 6. Required profit
 - I. Other
 - 1. Estimate of real interest rate
 - 2. Maximum loan to value
 - 3. Payment adjustment frequency

- VI. Computer system
 - A. Development
 - B. Installation
 - C. Training

- VII. Marketing and Consumer Education
 - A. Develop outline of marketing plan and consumer education materials
 - B. Review MBB plan and materials

- VIII. Appraisal
 - A. Organizational structure and job descriptions
 - B. Guidelines
 - C. Procedures
 - D. Manuals and forms
 - E. Formal Training if necessary

- IX. Assistance in Pilot Program Development
 - A. Business plan review
 - B. Target market identification
 - C. Geographic region identification
 - D. Determine number and volume of initial loans
 - E. Macroeconomic appraisal to determine launch date

- X. Senior Management Training
 - A. Intensive courses
 - 1. In Russia
 - 2. In the U.S.
 - B. Seminars

- XI. Government Support
 - A. Liquidity facility
 - 1. Emergency
 - 2. Negative amortization purchase
 - B. Targeted resources
 - 1. Share of pension fund resources
 - 2. Other
 - C. Mortgage insurance
 - D. Favorable regulatory treatment
 - 1. Reserve requirements
 - 2. Capital adequacy requirements
 - E. Favorable tax treatment
 - 1. For the bank
 - 2. For borrowers

ANNEX B

CALENDAR OF PROGRAM MILESTONES

January 1993

U.S. Lawyer prepares mortgage law recommendations (US)

U.S. and MBB lawyers discuss legal issues with government officials and present findings to MBB staff (RF)

Long-term advisor reviews MBB's business plan (RF)

February 1993

Underwriting and servicing experts from HDFC visit MBB to discuss basic concepts and observe Russian operating conditions (RF)

MBE senior manager(s) attend housing finance training course in Utah (US)

March 1993

Draft business plan presented for review to MBB and USAID (RF/US)

Underwriting and loan servicing study tour takes place (US)

Underwriting and loan servicing experts from HDFC prepare materials (India)

April 1993

MBB reviews underwriting and loan servicing materials with HDFC experts (RF)

May 1993

Senior Banking Advisor makes initial visit.

Underwriting and servicing experts modifies materials as necessary (India)

Mortgage product specialist begins product development (US)

June 1993

Work begins on funds mobilization strategy (RF)

Mortgage product specialist continues product development (US)

July 1993

Mortgage product specialist presents product, MBB reviews it, and expert makes required modifications; final product design sent to USAID for review (RF/US)

Computer expert studies computer compatibility requirements (RF)

Advisors review funds mobilization strategy (RF)

Initial draft business plan prepared

Six month progress review

August 1993

Mortgage product specialists trains MBB staff in computer model of product (RF)

U.S. lawyer and MBB staff develop outline of legal guidelines and procedures (RF)

MBB and U.S. marketing expert outline marketing plan and consumer education materials. (RF)

U.S. computer consultant modifies Bulgarian computer system (US)

September 1993

MBB develops a draft marketing plan and draft consumer education materials (RF)

September 1993 (continued)

U.S. expert and MBB staff outline appraisal guidelines, procedures and organization structure (RF)

Russian computer expert translates computer system (RF)

Russian and American computer experts debug the system if necessary (RF/US)

U.S. lawyer prepares legal materials (US)

October 1993

Funds mobilization strategy reviewed by USAID and MBB (US/RF)

MBB reviews legal materials (RF)

U.S. expert reviews marketing plan and consumer education materials (US)

Underwriting or training expert prepares underwriting training (US or India)

U.S. appraisal expert drafts appraisal report, manual, and forms (US)

November 1993

Underwriting or training expert gives underwriting training (RF)

MBB reviews appraisal materials (RF)

Housing finance generalist, long-term advisor and MBB develop pilot program (RF)

MBB prepares final draft of marketing plan and consumer education materials (RF)

Housing finance specialist assesses macroeconomic stability and presents findings to MBB (US and RF)

Appraisal expert modifies materials as necessary (US)

November 1993 (continued)

Appraisal or training expert prepares appraisal course if necessary (US)

Legal expert modifies legal materials modified as necessary (US)

Servicing or training expert prepares servicing training (US or India)

Computer expert prepares computer training (US)

December 1993

Servicing or training expert gives servicing training (RF)

Computer expert gives computer training and installs computer program (RF)

MBB launches marketing program (RF)

Appraisal expert or trainer teaches appraisal training if necessary (RF)

January 1994

First mortgages offered (RF)

**MBB - HOUSING FINANCE TECHNICAL ASSISTANCE
CALENDAR OF ACTIVITIES**

Activity	Month											
	1	2	3	4	5	6	7	8	9	10	11	12
1. Legal												
Advisor/MBB review legal issues	XXXX											
Advisor/MBB outline department								XXXX				
Advisor prepares materials									XXXX			
MBB reviews materials										XXXX		
Advisor modifies materials											XXXX	
2. Underwriting												
Advisor prepares materials		XXXX										
Study Tour			XXXX									
Materials reviewed/modified				XXXX								
Training										XXXX		
3. Servicing												
Advisor prepares materials		XXXX										
Study Tour			XXXX									
Materials reviewed/modified				XXXX								
Training										XXXX		
4. Funds Mobilization												
Strategy development						XXXXXXXX						
Long-term advisor reviews							XXXXXXXXXXXX					
5. Mortgage Product												
Advisor develops product						XXXXXXXX						
Product presented/modified							XXXXXXXX					
6. Computer Capacity												
Advisor studies compatibility							XXXX					
Advisor develops program								XXXX				
Russian translates system									XXXX			
Advisor prepares training										XXXX		
Training and installation											XXXX	
7. Marketing												
Advisor/MBB outline program							XXXX					
MBB develops program								XXXX				
Advisor reviews program									XXXX			
MBB modifies program										XXXX		
MBB launches program											XXXX	
8. Appraisal												
Advisor/MBB outline department								XXXX				
Advisor prepares materials									XXXX			
Materials reviewed/modified										XXXX		
Training if necessary											XXXX	
9. Business Plan/Pilot Program												
Initial business plan discussions	XXXXXXXX											
Draft business plan completed							XXXX					
Advisors assess economy										XXXX		
MBB determines launch date											XXXX	
Advisors/MBB develop pilot												XXXX
10. Senior Management Training	Additional programs to be identified											
11. Government Support	Undertaken opportunistically throughout year											

**MBB - HOUSING FINANCE TECHNICAL ASSISTANCE
INCREMENTAL LEVEL OF EFFORT**

Tasks	Mortgage Law Specialist	Mortgage Underwriting Specialist	Mortgage Servicing Specialist	Housing Finance Specialist	U.S. Computer Specialist	Mortgage Marketing Specialist	Mortgage Appraisal Specialist	Russian Computer Specialist*	Total
1. Legal Services	36	0	0	0	0	0	0	0	36
U.S.	26								26
Russia	10								10
2(a) Underwritng	0	27	0	0	0	0	0	0	27
U.S.		22							22
Russia		5							5
2(b) Study Tour/Training	0	22	0	0	0	0	0	0	22
U.S.		17							17
Russia		5							5
3(a) Servicing	0	0	27	0	0	0	0	0	27
India			22						22
Russia			5						5
3(b) Study Tour/Training	0	0	22	0	0	0	0	0	22
U.S.			17						17
Russia			5						5
4. Funds Mobilization	LOE from core staff								0
									0
5. Mortgage Product	0	0	0	33	0	0	0	15	48
U.S.				23					23
Russia				10				15	25
6. Computer Support	0	0	0	0	21	0	0	0	21
U.S.					13				13
Russia					8				8
7. Marketing & Education	0	0	0	0	0	13	0	0	13
U.S.						8			8
Russia						5			5
8(a) Appraisal	0	0	0	0	0	0	20	0	20
U.S.							15		15
Russia							5		5
8(b) Appraisal Training	0	0	0	0	0	0	8	0	8
U.S.							3		3
Russia							5		5
9. Pilot Development	0	0	0	12	0	0	0	0	12
U.S.				7					7
Russia				5					5
10. Executive training	LOE included in activities above								0
11. Government Support	LOE from core staff								0
12. Senior Banking Advisor (SBA)									120
TOTALS (includes SBA)	36	49	49	45	21	13	28	15	376
U.S./India	26	39	39	30	13	8	18	0	173
Abroad	10	10	10	15	8	5	10	15	203
Number of Trips	2	2	2	2	2	1	2	0	19

* This work plan's budget excludes the Russian computer specialist's work. It is assumed the MBB will bear this expense.

**MBB - HOUSING FINANCE TECHNICAL ASSISTANCE
SUMMARY ILLUSTRATIVE BUDGET**

		Days/ Trips	Full Cost
1. Legal Services	Mortgage Law Specialist (UI)	36	\$14,081
	Travel - US/Moscow/US (2 weeks)	2	18,374
	ODCs/Translation		6,611
			<u>39,066</u>
2. Underwriting	Mortgage Underwriting Specialist (Abt)	39	18,362
	Sr. Study Tour Organizer (Abt)	10	9,623
	Jr. Study Tour Organizer (Abt)	10	4,349
	Travel - Moscow/US/Moscow (Study Tour)	5	37,567
	US/Moscow/US (1 week)	2	19,166
	ODCs/Translation		14,879
			<u>103,946</u>
3. Servicing	Mortgage Servicing Specialist (Abt)	39	18,362
	Travel - India/Moscow/India (1 week)	2	17,748
	ODCs/Translation		8,294
			<u>44,403</u>
4. Funds Mobilization	LOE funded out of core budget		
	ODCs		<u>2,946</u>
5. Mortgage Product	Housing Finance Specialist (UI)	33	14,223
	Travel - US/Moscow/US (2 weeks)	1	9,187
	ODCs/Translation		5,918
			<u>29,327</u>
6. Computer Support	Computer Specialist (UI)	21	8,214
	Travel - US/Moscow/US (1 week)	2	14,745
	ODCs/Translation		5,883
			<u>28,842</u>
7. Marketing & Education	Mortgage Marketing Specialist (UI)	13	5,085
	Travel - US/Moscow/US (1 week)	1	7,372
	ODCs/Translation		4,490
			<u>16,947</u>
8. Appraisal	Mortgage Appraisal Specialist (Abt)	28	13,183
	Travel - US/Moscow/US (1 week)	2	17,748
	ODCs/Translation		7,816
			<u>38,746</u>
9. Pilot Development	Housing Finance Specialist (UI)	12	5,172
	Travel - US/Moscow/US (2 weeks)	1	9,187
	ODCs/Translation		4,635
			<u>18,994</u>
10. Executive Training	Included in LOE of above activities		
	Travel - Moscow/US/Moscow (1 week)	8	49,937
11. Government Support	LOE funded out of core budget		0
12. Senior Banking Advisor	Senior Banking Advisor (UI)	120	46,938
	Travel -	6	66,393
	ODCs/Translation		12,216
		393	<u>125,547</u>
SUMMARY			
	Personnel	361	157,590
	Travel	32	267,424
	ODCs		73,687
	Total		<u>\$498,701</u>